

IDAHO OUTLOOK

NEWS OF IDAHO'S ECONOMY AND BUDGET

STATE OF IDAHO

DIVISION OF FINANCIAL MANAGEMENT

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One of baseball's deepest thinkers, Leroy "Satchel" Paige, once said, "It's not what you don't know that hurts you. It's what you know that just ain't so." As with any great truth, this sage advice has applications beyond the baseball diamond. In fact, it applies to economics. Several economic statistics are heralded as measures of "well being." Unfortunately, they can be misused. These economic measures have limitations that must be considered when using these statistics. In this *Outlook* we use the official poverty rate to illustrate why what we think we know might not be so.

Last month the U.S. Census Bureau reported the official U.S. poverty rate was 12.1%. This was a slight increase from the previous year's 11.7%. While many had an opinion on what this increase meant, most would be hard pressed to define the poverty rate. Most people believe it's the percent of the population living under a single poverty income level. This is incorrect. There is no single poverty threshold. Instead, there are numerous poverty levels determined by a matrix of income thresholds based on the size of a family unit and the number of children under 18 years old in families. As such, poverty thresholds vary greatly between groups, from a low of \$8,628 per year for a single senior citizen to \$34,780 for a family with at least nine people of which at least eight are children. The persons falling under these thresholds are in poverty. The percent of the population in poverty to the total population is the poverty rate.

A limitation of the poverty rate is that it is too broad a brush. Family income is the combined money income of all family members 15 years old and older. Family income determines whether a person is in poverty, not individual income. That is,

if a family is under the poverty income threshold, all members of the family are declared impoverished no matter their individual income. For example, a father earning \$20,000 a year who lives with his daughter with five children who earns \$5,000 a year would be considered in poverty because the threshold for a seven person household with five children is \$26,294. However, if he lived alone his income would be more than twice the poverty level, so he would not be counted as impoverished. As a result, the official rate tends to overestimate the number of persons in poverty.

Another limitation of the poverty rate it is not adjusted for cost of living differences. For example, Idaho's official poverty rate dropped from 12.0% in 2001 to 11.4% in 2002. These rates were determined using the national table. In fact, all state rates were based on the same table. The income levels on the table represent the minimum necessary to provide for each type of family. This implies the cost of living everywhere in the U.S. is the same. Anyone who has been to Princeton, Idaho and Princeton, New Jersey would know this simply is not true. As a result, the official poverty rates for low cost states tend to overestimate poverty and the rates in high cost states tend to underestimate it. To be fair, estimating the cost of living for each state annually would be difficult. Another reason poverty rates do not include cost of living adjustments is consistency. Several federal funds are distributed based on poverty levels. By using the same methodology for determining poverty, everyone is treated equally.

Another issue is what should be considered income. This is not a trivial question. The official income estimate for a family includes

only money income, such as wages, and transfer payments, such as public assistance. Income is calculated before deductions for taxes or other expenses and does not include lump-sum payments or capital gains. Thus, it does not include all funds available for spending. Theoretically, a family could receive a large insurance settlement and still be considered impoverished. Or a family could be wiped out financially due to a catastrophic illness, but not be considered in poverty if its earned income was over the threshold. One would assume including taxes, expenses, and capital gains would solve this problem, but it would not because of noncash income. Examples of noncash income are food stamps and employer-paid health insurance. No one would argue that noncash income increases the well being of families. However, they are not considered in determining poverty.

The U.S. Census Bureau has prepared a sensitivity analysis of unofficial poverty estimates based on different income concepts. Two observations can be made from this work. First, the definition of income has a significant impact on the poverty rate. For example, the official rate in 2002 was 12.1%. However, by widening the definition of income the poverty rate is estimated at 9.4%. Second, although the poverty rates vary by income definition, they all move in parallel over time.

The purpose of this *Outlook* was not to poke holes in the poverty rate. Instead, it reminds us that all economic data have limitations, and should always be used in the right context. That way the next time what we say may just be so.

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General Fund Update

As of September 30, 2003

Revenue Source	\$ Millions		
	FY04 Executive Estimate ³	DFM Predicted to Date	Actual Accrued to Date
Individual Income tax	882.8	190.0	200.5
Corporate Income tax	96.7	22.8	23.3
Sales Tax	865.6	226.3	232.1
Product Taxes ¹	45.6	12.2	11.8
Miscellaneous	150.9	48.7	48.7
TOTAL GENERAL FUND²	2,041.6	500.0	516.4

¹ Product Taxes include beer, wine, liquor, tobacco and cigarette taxes
² May not total due to rounding
³ Revised Estimate as of August 2003, adjusted for 2003 legislative actions

General Fund revenue was \$2.4 million higher than expected in September. This brings the fiscal-year-to-date excess to \$16.4 million. The sole source of material strength in September is the individual income tax. The sales tax was slightly ahead of expectations for the month, whereas the other three categories were slightly behind expectations.

Individual income tax revenue was \$2.6 million higher than expected in September. On the collection side, filing payments were \$2.2 million higher than predicted and withholding collections were \$1.0 million lower than predicted. On the payout side, refunds were \$1.2 million lower than expected and miscellaneous diversions were \$0.1 million lower than expected. Year-to-date individual income tax revenue is now \$10.5 million higher than expected.

Corporate income tax revenue was \$0.1 million lower than expected in September. Filing payments were exactly on target for the month, while quarterly estimated payments were \$0.6 million lower than predicted. Refund payments were \$0.6 million lower than expected for the month, while miscellaneous diversions were \$0.1 million higher than expected. Corporate income tax collections are now \$0.5 million higher than expected for the fiscal year-to-date.

Sales tax revenue was \$0.3 million higher than expected in September. This revenue category is now \$5.8 million ahead of the year-to-date expectations. September represents a considerable deceleration in this revenue category. This is consistent with expectations that the construction-related boost from low interest rates is tailing off.

Product taxes were \$0.2 million lower than expected, and this was entirely due to weakness in the cigarette tax. Year to date cigarette tax collections are \$0.5 million lower than expected. This pattern is consistent with the recent rate increase (from 28 cents per pack to 57 cents per pack), and we should see some recovery later in the fiscal year as the initial shock of the rate increase wears off.

Miscellaneous revenues were also \$0.2 million lower than expected in September. Weakness in unclaimed property and the inheritance tax were partially offset by strength in the insurance premium tax, alcoholic beverage licenses, and interest earnings.